Report of the Taxation Enquiry Committee in Mysore.

Letter No. 2—Enc. 10, dated 2nd—13th March 1929 from B. Sreenivasa Iyengar, Esq. B.A., B.L., Secretary to the Taxation Enquiry Committee, Bangalore, to N. Rama Rao, Esq. B.A., B.L., Secretary to Government, Development Departments, Bangalore.

With reference to G.O's. Nos. D. 9339-406—E. C. 44-27-1, dated 8th March 1928, and 9739-800—E. C. 44-27-3, dated 15th March 1928, appointing a Committee of the marginally-noted gentlemen to consider the proposals contained in Mr. N. S. Subba Rao's Report on Taxation in Mysore, I am directed to forward the accompanying report to Government.

CHAIRMAN.
Sir Charles Todhunter.

MEMBERS.

1. Mr. P. W. O'Brien.
2. ,, N. S. Subba Rao.
3. ,, S. Venkatesiah.
4. ,, B. K. Garudachar.
5. Rao Bahadur N. S. Nanjundiah.
6. Mr. N. Rama Rao.
7. ,, M. S. Linge Gowda.
8. ,, S. P. Rajagopalachari.
9. ,, B. Abdur Rahmon.
10. Col. P. A. Barton.
11. Mr. K. Subramani Aiyar.
12. ,, B. Sreenivasa Iyengar (also Secretary to the Committee).

2. The Committee commenced their sittings on the 31st March 1928 and met seven times in all. The details of the attendance of the members on the several dates of meeting are given in Appendix A. At a series of prolonged and fully attended meetings held on the 31st March and the 11th, 12th and 13th April 1928, the Committee arrived at certain provisional conclusions, a statement of which was submitted to Government with my letter No. 121, dated 14th—16th April 1928.

Meanwhile, three Sub-Committees had been constituted to consider and report to the Full Committee in more detail on certain branches of the subject as indicated below :—

(1) *Income-tax.*—The question of revising the Income-tax schedule was referred to a Sub-Committee consisting of Messrs. B. Sreenivasa Iyengar, P. W. O'Brien and K. S. Aiyar, a copy of whose report is attached as Appendix B. After the Full Committee had considered this report, the same Sub-Committee, with the addition of Mr. N. S. Subba Rao and Rao Bahadur N. S. Nanjundiah, was asked to examine the question of the increase in the Super-tax rates and the report of the enlarged Sub-Committee is attached as Appendix C.

(2) *Death duties.*—The examination of the question of the practicability of levying death duties in Mysore was referred to a Sub-Committee consisting of Messrs. B. K. Garudachar and S. Venkatesiah and Rao Bahadur N. S. Nanjundiah. A copy of the report of this Sub-Committee is attached as Appendix D. The Sub-Committee having found that there were no practical difficulties in the way of levy of such duties in Mysore, the Full Committee resolved that the question of drawing up a scheme for the levy of such a tax on lines that would be appropriate in Mysore be referred to this Sub-Committee with the addition of Messrs. N. S. Subba Rao and M. S. Linge Gowda and Col. P. A. Barton. This enlarged Sub-Committee has, however, so far been unable to meet, and on further consideration of the question, the Full Committee have come to the conclusion that the drawing up of the scheme may lie over until such time as the levy of the tax comes within the range of practical politics.

(3) *Taxation of motor vehicles.*—A Sub-Committee consisting of Messrs. N. Rama Rao, K. S. Aiyar, and B. Abdur Rahmon and Col. P. A. Barton, with whom Mr. C. Ranganatha Rao Sahib, Director of Industries and Commerce, was associated, considered the details of the method of levy and the rate of a general tax on motor transport in the shape of a surcharge on petrol. This Sub-Committee's report is attached as Appendix E.

3. The Full Committee met again on the 6th February 1929 for reconsideration and amplification of their provisional conclusions in the light of the reports of the Sub-Committees, and held a joint meeting with the Octroi Committee on the 11th idem. The members met finally on the 2nd March 1929 and passed the report, embodying their final recommendations, as detailed in the following pages.

4. Mr. B. K. Garudachar, who was unable to attend the final meeting, signified his acceptance of the report subject to certain reservations which are contained in his letter which is printed as Appendix F.

I have the honour to be,
Sir,
Your most obedient servant,
B. SREENIVASA IYENGAR,
Secretary, Taxation Enquiry Committee.

REPORT.

INTRODUCTORY REMARKS.

Under a Government Order of 25th January 1927, Mr. N. S. Subba Rao, M.A., Bar-at-law, then Principal of the Maharaja's College, Mysore, was placed on deputation,

(1) to examine how far the recommendations of the Indian Taxation Enquiry Committee are applicable to conditions in Mysore, and which of them may be adopted with advantage,

(2) to investigate into the suitability of the new or alternative taxes suggested by that Committee and the desirability or otherwise of levying them, and

(3) to examine the margin of unutilised powers of taxation of Local Bodies and the question of the assignment or transfer to them of any items of revenue which are now credited to Government, but which may be placed at the disposal of the said bodies for a proper development of Local Self-Government.

2. The Report on Taxation in Mysore, prepared by Mr. N. S. Subba Rao in pursuance of these instructions, was placed before the Economic Conference on the 28th February 1928. In accordance with a resolution passed by that body, this Committee was appointed by Government "to consider the proposals contained in Mr. Subba Rao's Report, and to make recommendations as to the adjustments that are necessary in order to secure a more even apportionment of the burden of taxation and as to the order of precedence in which new schemes of taxation should be taken up in the event of further revenue being required."

3. At the outset of our enquiry, our attention was drawn to the following statements made in Mr. Subba Rao's Report :—

155. "The desirability of new taxes can only be determined with reference to the nature of public expenditure and the adequacy or the reverse of the existing sources of revenue."

156. "In recent years, the revenue (of the Mysore State) has tended to be stationary, one or two heads even showing a tendency to a fall."

156. "Expenditure on the other hand has been increasing steadily, and in some years very sharply."

157. "The only alternatives (for securing an equilibrium between revenue and expenditure) are either a reduction in the heavy demands made by the Imperial Government on the taxable capacity and the resources of the state, or additional taxes."

89. "The revenues of the State are, for the most part, derived from the agricultural classes of the country, whose income level is, as a rule, low."

92. "The taxes of the State fall, in the main, on labourers, urban and rural, and small land-holders and peasant proprietors. The comparatively wealthy persons consist of large holders, *viz.*, big merchants and the upper grades of the professional classes. This class may be said to be comparatively under-taxed. Classes like small traders in villages and towns, and the lower grades of the professional classes contribute practically nothing to State funds."

4. The Committee did not feel that they were called upon by their terms of reference to make an examination of the general financial position of the State. At the same time, they could not be blind to the fact that, in view of the rapid developments that are in progress in several departments, anything in the nature of an appreciable remission of taxation in the near future is improbable. It follows that the means of adjustment of the burden are to be sought rather through increasing the burden on the classes that are comparatively lightly taxed than by attempting to reduce that of the rest.

5. Mr. N. S. Subba Rao's proposals have been grouped under the following heads :—

(i) Taxes in Mysore which have their counterpart in British India.
(ii) New or alternative taxes.
(iii) Local finance.

6. His observations under the first group, relating to Land Revenue, Excise, Income Tax and Stamps, will now be dealt with.

LAND REVENUE.

P 22. "The system of assessment is empirical and does not consciously follow any defined principle in respect of basis."

P 22. "The main recommendation (of the Indian Taxation Enquiry Committee), *viz.*, statutory sanction of the rate of levy, is based on the obvious principle that taxation should receive the approval of the Legislature and should not be left to the discretion of the Executive."

P 19. "Gifts of land and fixed assessments have deprived the State of a considerable amount of revenue."

P 19. "A gap in the system of assessment is the absence of assessment of building sites for provincial purposes."

P 32. "Equity and the rights of the general tax-payer demand that water-rates should be separated from Land Revenue and levied on an economic basis."

P 24. In the case of lands at the disposal of Government, the possibility of substituting a system of leases for long periods of years, instead of selling them outright, may be considered.

7. The Committee's recommendations on these proposals are as follows :—

In view of the resettlements that have recently been completed all over the State, we do not consider that re-examination of the system of land revenue assessment would be of any practical value at present. Nor are we prepared to recommend any enquiry into the extent of alienation of inam lands from the original grantees or their descendants with a view to further taxation. We are entirely in accord with the policy of Government in resuming inam lands that are bought in for arrears of revenue and converting them to ordinary raiyatwari. We agree that the present system does not provide adequately for the assessment of building sites for provincial purposes. The system of levying a fine, when agricultural land is converted to non-agricultural purposes, leaves a large potential increment free of taxation. It is desirable that this defect should be remedied. We recommend that, in the disposal of house sites in the possession of Government hereafter, the Madras system as described below should be adopted as far as possible.

In Madras, standard scales of ground rent have been fixed, and when any land is to be disposed of, such one of these scales as may be appropriate is applied to the plot, which is then sold by auction subject to that rent.

This should be coupled with the following rider :—

The practice of making over a substantial fraction of the proceeds of this tax to the Municipal Bodies should, in the opinion of the Committee, be generally adopted. At the same time, it is undesirable that there should be made over with them the management of the lands, which seems to be much better left in the hands of the Revenue Authorities.

In respect of special classes of lands which are likely to become valuable in course of time, *e.g.*, lands fit for coffee or tea estates, lands irrigable under large irrigation works, etc., the Committee consider it desirable to adopt the system of leasing such lands for a term of years instead of selling them outright.

As regards the question of water rates, wherever possible the charge for water should be separated from the charge for the land. The general principles governing the levy of water rates, contained in para 138 of the Indian Taxation Enquiry Committee's Report (printed as Appendix G.), are recommended for adoption.

EXCISE.

P 36. 8. Mr. Subba Rao states:—

"The increase in the yield from shop rentals has been far greater in proportion than the increase in the yield from duties."

"The relative proportions of shop rentals and duty in the case of arrack and toddy are in marked contrast, not merely with each other, but also to some extent with the proportions in British India."

P 50. "Another aspect of the problem worth investigation at the present time is the illicit manufacture of liquor."

The Committee are not satisfied that the fall in Excise Revenue in recent times has been accompanied by a compensating gain in welfare. We would recommend an enquiry into the question of illicit practices and into the adequacy of the preventive and controlling staff. Concurrently with the question of the Excise staff, the possibility of an increase in the rates of excise duties and a surcharge on foreign liquors should be examined. It may be considered whether the surcharge system should not be applied to the sale of liquor by clubs. In the case of toddy, experiments may be made in the separation of the privileges of wholesale and retail vend. Lastly, the question of increasing the tree rent may also be considered.

INCOME-TAX.

9. Mr. Subba Rao's proposals under this head are:—

P 62. (1) "The minimum of exemption.....is decidedly too high."

P 63. "There is much to be gained in administrative convenience by adopting the same rates as those that obtain in British India."

(2) "The rates be raised, in the first instance, all round by 50 per cent except in the case of four and half pies which may be converted to the nearest whole number, *viz.*, 5 pies."

(3) Allowances may however be made for wives, dependents and children on incomes not exceeding Rs. 2,500.

P 65. (4) When a person has an income from agriculture in addition to one from other sources, there is theoretical justification for the proposition that the former should be taken into consideration for the purposes of determining the rate at which the latter should be assessed.

The Committee agreed that a revision of the income-tax rates in Mysore was called for and had the question of modification of the tax schedule examined by a Sub-Committee. The members have not been able to arrive at complete unanimity in their detailed recommendations on this subject. A majority accept the suggestion of the Sub-Committee for maintaining the present minimum of Rs. 2,400 for the time being. The Committee, with the exception of Mr. B. K. Garudachar, recommend the adoption of the following tax schedule:—

Grades of income	Present rates	Proposed rates
Rs.	Pies	Pies
2,400— 4,999	3	3
5,000— 9,999 (5,000—8,999)	3	4½
(9,000—9,999)	4½	
10,000—19,999	4½	6
20,000—24,999	4½	7½
25,000—29,999	6	9
30,000—39,999	6	12
40,000—49,999	9	15
50,000—and above	12	18

Companies and Registered Firms to pay the new maximum rates.

Mr. B. K. Garudachar suggests the following scale in the higher grades :—

Rs.	Pies.
20,000 --29,999	7½
30,000—39,999	9
40,000 –49,999	12
50,000 and above	15

As regards the question of super-tax, the Income-tax Sub-Committee suggested the adoption of the recommendation of the Indian Taxation Enquiry Committee, *viz.*, to reduce the limit of exemption from super-tax from Rs. 50,000 to Rs. 30,000 and to levy a lower rate of 6 pies in the rupee on incomes between Rs. 30,000 and Rs. 50,000. In this connection, three alternatives were considered by the Committee—

the first was to retain the present limit of exemption at Rs. 50,000, as in British India, and to enhance the rates of income-tax on incomes between Rs. 30,000 and Rs. 50,000;

the second, to adopt the Sub-Committee's proposal to impose a rate of 6 pies in the rupee on the excess over Rs. 30,000 in the case of incomes between Rs. 30,000 and Rs. 50,000; and

the third, to adopt a graduated scale, namely, 3 pies in the rupee on the excess over Rs. 30,000 in the case of incomes from Rs. 30,000 to Rs. 40,000, 6 pies on the excess over Rs. 40,000 in the case of incomes from Rs. 40,000 to Rs. 50,000, and one anna, as at present, in the case of incomes over Rs. 50,000.

The Committee approved of the third alternative and recommend its adoption. Mr. B. K. Garudachar is not in favour of this proposal.

As regards the questions of graduating the scale in the case of incomes of more than a lakh of rupees and of reducing the minimum in the case of Undivided Hindu Families, it was pointed out to us that these were not practical issues as there are no incomes of over a lakh and no Undivided Hindu Families that come within the scope of this tax. For this practical reason, the Committee agreed to recommend that the existing arrangements should be allowed to stand without prejudice to the theoretical advantages of the proposals.

The Committee do not propose that any action be taken at present in the direction of the inclusion of income from agricultural sources for the purpose of fixing the rates of tax on non-agricultural incomes.

STAMPS AND COURT FEES.

10. Mr. N. S. Subba Rao states that the recommendations made by the Indian Taxation Enquiry Committee regarding these taxes are generally applicable in Mysore, but are matters for appraisal by the legal advisers to the Government. An expert enquiry is suggested.

On this subject, the Committee are of the opinion that the Government should await the result of the consideration of the proposals of the Indian Taxation Enquiry Committee by the Government of India.

II. NEW OR ALTERNATIVE TAXES.

11. The taxes recommended by Mr. Subba Rao for provincial purposes are the following :—

(1) A ground rent on building land.
(2) Taxes on motor cars.
(3) Succession duties.
(4) A tax on tobacco.

Under item (1) his proposals are as follows :—

P 103. The State should reserve to itself the right of levying a fair ground rent in addition to any initial fine on lands outside towns used for purposes other than agriculture. This is not likely to be a large source of revenue.

P 104. As regards land in towns, however, "there is no doubt that a large unearned increment escapes taxation," and it is reasonable "that the Government should retain its rights as landlord and obtain for itself a share of the increased value, both capital and annual."

P 105. While a ground rent on building land is an equitable form of taxation, the Report says that, in present circumstances, a considerable addition to the resources of the State is not likely, especially as "the duty levied on unearned increments will have to go to Municipalities, who have helped to create them."

The Committee are in favour of the proposal on general grounds, and their recommendation on this subject has already been indicated under the Land Revenue Section—*vide* para 7 *supra*.

12. *Item (2) Motor taxation.*—The question of the taxation of motor vehicles involves several considerations extraneous to the Committee's terms of reference. From the point of view of public convenience, there have to be considered the injury done to the roads by certain classes of vehicles, the injury done to the health of the people by the immense amount of dust that is thrown up, and the danger to life and limb through reckless driving. Other considerations are, the necessity for regular running by those who undertake this public service, suitable vehicles and competent passed drivers, the necessity for regulation of fares and the elimination of cut-throat competition, and continuous inspection and control by competent officers. From the point of view of the State Railways, there have to be considered the supplementing of the railway services in some cases, competition with them in others, and generally the co-ordination of the motor-bus services with the railway services and with one another. From the point of view of finance, there has to be considered the fact that the cost of keeping up the roads is bound to grow to a figure out of all proportion with the expenditure in the past, and that tolls are a highly unsuitable and unpopular form of taxation, but that it is extremely difficult to find any adequate substitute, and particularly to find one which does not tax the vehicles registered in the State without letting the vehicle that comes from outside go free. There is also the question of the loss that would be involved to local bodies by the abolition of tolls and the compensation which would have to be given to them if tolls were abolished.

The Committee's first and provisional conclusion was in favour of recommending the imposition of a general tax on motor transport in the shape of a surcharge on petrol, and they appointed a Sub-Committee to suggest details of the method of levy and the rate.

The Sub-Committee came to the conclusion that a surcharge of 2 annas per gallon on petrol consumed in the State, including the Civil and Military Station, would be the most convenient method of taxing motor vehicles and that it would have the additional merit of reaching vehicles from outside which ply in Mysore. The best method of collecting the surcharge would be by an arrangement with the importing agents who could instruct the sub-agents and vendors to add on the tax as part of the price at which petrol is sold to consumers. The surcharge system would depend for its success on the co-operation of the Civil and Military Station, and a working agreement would have to be arrived at with the authorities there.

The proposals of the Sub-Committee are very much on the same lines as those subsequently arrived at by the Indian Road Development Committee, and we have accordingly expressed our general concurrence in the proposals of the latter.

The existence of the Civil and Military Station as an enclave in the State creates a difficulty. Our suggestion regarding this is, that the Government of India should be moved to treat the Civil and Military Station as a part of Mysore for the purpose of reckoning the consumption of the State, since a good portion of the petrol consumed is purchased in the Civil and Military Station. If that is done, it would then be possible to allocate a proportion of the grant received from the Government of India under the proposals of the Road Development Committee to the Civil and Military Station, upon whatever principles might be adopted in the case of large towns generally, with reference to paragraph 69 of the Report of the Committee (copy of which is attached as Appendix H).

A further provisional conclusion of the Committee was that, on the imposition of a general tax on motor transport in the shape of a surcharge on petrol, all tolls

on motor cars should be abolished, only those on the borders of the State being continued in respect of cars not registered in the State.

Having been informed, however, that the quantity of petrol consumed in the State, including the Civil and Military Station, is about 11 lakhs of gallons per annum, and that a surcharge on petrol at two annas a gallon would only yield about Rs. 1·37 lakhs, the Committee were much impressed with the fact that the relief that would be given by the imposition of a surcharge of 2 annas a gallon would be inadequate to provide for the large increase in expenditure which is necessary on the roads of the State, and would be practically useless for the purpose of providing for the abolition of tolls. The Committee's provisional resolutions on this subject required therefore to be revised.

P 107. For the purpose of the imposition of further taxation, it is desirable to consider the case of private vehicles and motor omnibuses separately. In the case of private vehicles, Mr. Subba Rao suggests (1) that taxes should be levied at an average rate of Rs. 30 for motor cycles, Rs. 80 for cars and Rs. 100 for heavy motor vehicles, the registration fee (as well as the fees for renewal) now paid by heavy motor vehicles being merged in the above taxes, (2) that Municipal taxation on motor vehicles and levy of tolls from such vehicles in all parts of the State should be abolished and Local Bodies compensated and (3) that special provision should be made for levying tolls on motor vehicles not registered in the State.

The Committee were not altogether prepared to recommend the abolition of the local taxation. They thought that the license tax might continue, provided that steps should simultaneously be taken to prevent the stabling of the motor vehicles outside the municipal limits for use within them.

In the case of motor-buses there are two alternatives, which may be described as the *alternatives of free competition and monopoly. The proposal in the first case is to raise the rate now charged per mile for running services over particular roads, if necessary, and to grant licenses freely to all applicants who satisfy the conditions laid down, provided the roads concerned can carry the traffic, and subject to such regulation as would prevent racing and other elements of cut-throat competition such as would be to the detriment of the public convenience. The other alternative is to recover for the benefit of the State the money value of the privilege which is involved by the grant of a license, in other words to let out to approved persons, for a term of years at a time, the right to work regulated and co-ordinated services under a prearranged system. The essentials of such a system are (1) that the bus services should act as feeders to, and generally not in competition with the State Railways, (2) that there should be a set of services co-ordinated both with the railways and with other bus systems throughout the State, (3) that the system adopted should afford inducements to develop the less as well as the more profitable routes and should ensure regular running even when there is a likelihood of some vehicles running comparatively empty, (4) that fares should be fixed at rates which would be reasonable from the point of view of the user of the bus and would at the same time yield a reasonable rate of profit to the proprietor, (5) that the service should be under continuous inspection and control by competent Inspectors and (6) that regular depots for petrol and repair shops, which could serve private cars as well as buses, should be set up at suitable places.

The manner in which it is suggested that such a system should be worked is that there should, first, be an elaborate enquiry into the roads on which the greatest amount of traffic takes place, and a selection of groups of routes, generally those of some of those radiating from particular centres, which would serve as the head quarters of all the services leased together and of the controlling officer. The enquiry would involve a fixation among other things of the times of running and number of vehicles required to run on each route. When schedules of this nature had been prepared, tenders would be invited from the owners of motor-buses for the sole privilege of working each group of services for a term of years. On examination of the tenders, the privileges would not be allotted necessarily to the lowest or any other tenderer, but an endeavour would be made so to distribute the business as to give a fair share of it to all respectable owners of a sufficient number of vehicles. In making this distribution it is probable that some levelling up of rates would take place. For instance, a tenderer who submitted a very low tender might, before his

*Mr. Venkatasiya dissents from the alternative suggestions about monopoly.

tender was rejected altogether, be given the option of coming up to the amount tendered by a rival who had already been provided for with another group of services.

Colonel Barton added the suggestion that, if the services were brought under State control in the manner indicated, a further feature of the scheme might be to arrange, through the State Life Insurance Department, for the sale of tickets which would ensure passengers against injury to life or limb as an alternative to the ordinary tickets and at a slight percentage advance in price.

13. Item (3) *Death Duties* :—

P 112. Mr. Subba Rao observes in his report that " succession duties are essential in any system of taxation that claims to be equitable " and suggests " that succession duties in the form recommended by the (Indian Taxation Enquiry) Committee should be levied in Mysore as an appropriate method of taxing those who are at present taxed comparatively lightly."

P 108. The Committee having provisionally arrived at the opinion that duties on inheritance are a highly suitable form of taxation, the question of the practicability of levying them in Mysore was referred to a Sub-Committee consisting of Messrs. Garudachar and Venkatesaiya and Rao Bahadur Nanjundiah. The Sub-Committee found that there were no practical difficulties in the way of levy of such duties in Mysore, and the same body, with the addition of Mr. Subba Rao, Col. Barton and Mr. Linge Gowda, was requested to draw up for the consideration of the main Committee a scheme for the levy of such a tax on lines that would be appropriate in Mysore. This enlarged Sub-Committee was unable, unfortunately, to meet for the further consideration of the question that had been referred to it. In the circumstances, the Committee submit to the Government, confirming the conclusions already arrived at,

that (1) duties on inheritance are a highly suitable form of taxation,

(2) there appear to be no practical difficulties in the way of levy of such duties in Mysore, but

(3) the actual working out of a scheme for the levy of such duties may be left until their levy becomes a practical issue.

14. Item (4) *Tax on Tobacco* :—

Mr. Subba Rao's proposals under this item are :—

P 114. State taxes on tobacco may be introduced as a development of the existing system of licensing the trade in the cities of Mysore and Bangalore. The license fee should bear some proportion to the amount of tobacco handled. Outside the two cities, the right of vend should be auctioned by taluks, each buyer being empowered to license retail vendors to whom alone the cultivator should be allowed to sell.

The Committee are of opinion that a tax on tobacco is an eminently suitable form of additional taxation and that a system of taxation may be built up on the basis of the present taxation through Octroi and Municipal licenses, further developments being undertaken on the lines indicated in the report of the Indian Taxation Enquiry Committee as control is secured, and that, if and when a State tax on tobacco is introduced and so supplants a municipal tax, the municipality ought to be compensated on the basis of the revenue at the time of its introduction.

III. LOCAL FINANCE.

15. Under this group head, the following propositions of Mr. Subba Rao were considered :—

P 147. (*a*) " The (Indian) Taxation Enquiry Committee have called attention to the fact that the finances of Local Bodies all over the country are inadequate for the services which they have to perform."

P 130. (*b*) In municipalities " the directions in which additional amounts may be obtained are improvement in the assessment and collection of the profession tax. "

P 129. (*c*) There is scope for the improvement of revenue under tax on buildings and lands by revising the valuation and increasing the rates.

P 127-8. (*d*) "Octroi duties offend against the rules of sound finance." The general impression is that these duties offer much scope for leakage of revenue. The substitution of a tax on sales for octroi duties may be considered.

P 134. (*e*) The larger municipalities may improve their resources by levying—

(1) an entertainment tax,

(2) a tax on advertisements.

P 138. (*f*) In the case of District Boards, a cess on income-tax has been suggested.

P 147. (*g*) A carefully considered system of grants-in-aid from general revenues is stated to be necessary.

P 152. (*h*) Generally speaking, the balance of argument is against the transfer to Village Panchayets of items of provincial revenue. It has been suggested that Hulbanni and Amarayi would be found to be exceptions to this rule, inasmuch as local collection and appropriation would lead to greater rigour in collection. In order to test this, a transfer might be made in one taluk in each district and the yield watched for a year or two.

In considering the proposals on local taxation, the Committee had the benefit of a full discussion at a joint meeting of the Taxation and Octroi Committees on the 11th February 1929. This was based to a considerable extent on a note written for the Octroi Committee by the President, which is printed as Appendix I.

As a result, our final recommendations on this subject are as follows :—

(1) As compared with other forms of property, house sites, whether built upon or not, are very inadequately taxed.

(2) The Municipal taxes on houses in the State are very low compared with other taxes and compared with rates elsewhere, and the method of assessment is capable of much improvement. Enquiry should be made into the revision of the valuation of the houses in municipal limits and the possibility of an increase in the rates, and the work of valuation should be done by lent officers of the Revenue Department.

(3) The professions and trades in Municipalities do not bear their share of the common burden.

(4) The Octroi tax offends against all the canons.

(5) A terminal tax would be no better and would be inapplicable to Mysore conditions.

(6) The five articles, *viz.*, piece-goods, tobacco, jaggery, sugar, kerosine oil, sheep and goats to which it was suggested, as a result of the earlier discussions of the Octroi Committee, that octroi should be limited, are all articles that can be taxed otherwise more effectively than through stoppage and assessment at an octroi barrier.

(7) The substitutes for octroi suggested by these considerations are (*a*) increased rates of house-tax, coupled with an improved method of assessing the tax, (*b*) a graduated tax on professions and trades, (*c*) a tax on cattle, sheep and goats slaughtered, (*d*) a license fee for the vend of tobacco, which might be levied either at a fixed rate or through auction of the right of vend.

The question of a quantitative shop tax upon piece-goods, jaggery and sugar and kerosine oil was discussed, but it was decided that this would only be a half-way house between octroi and a properly assessed profession tax, and that it would be better to adopt the latter at once, provided of course that an efficient machinery for assessing it could be secured.

The question of sheep and goats sold at markets within Municipalities was also discussed. We consider that the levy of a market fee for such purposes is appropriate, but this is a matter quite independent of that of substitution of other taxes for octroi.

Mr. B. K. Garudachar and Mr. Oosman Khan of the Octroi Committee were doubtful if the income under the new proposals would be adequate to replace the octroi, but were quite prepared to accept them on the understanding that they should be tried out first by a special staff under Government direction and that Government should make good any loss that might result to the Municipalities that might be selected for the trial.

The Committee are strongly of opinion that it is necessary that the changes herein suggested should be given a fair trial in selected areas by a thoroughly efficient and trained agency, working independently of the local body, before being commended for general adoption. In particular, an endeavour should be made to follow the example of the Government of India in securing an improved income-tax staff, and this staff, or an extension of it, should be employed in assessing profession tax, with reference to the income-tax assessment in the case of those who pay income-tax, and as the result of a house-to-house visitation and inspection of account books and invoices in the case of smaller traders.

The Committee understand that the levy of an entertainment tax in Bangalore City is already under consideration and recommend the consideration of the same question in other large towns.

In the opinion of the Committee, the levy of a tax on advertisements does not appear likely to be productive.

As regards the question of levy of a cess on income-tax in rural areas, we are of opinion that the best course would be to follow the same plan as has been proposed in the case of the Municipalities, provided it is found, on enquiry, that there is reason to anticipate a yield which would be in proportion to the trouble and expense involved.

On the question of assignment of Hulbanni and Amarayi revenue, the Committee understand that Government have already passed orders expressing their inability to make over the entire receipts from Hulbanni and Amarayi to the Village Panchayets. There is probably no objection to the transfer of these items to the Panchayets in exchange for a fixed payment based on the average realisations in the past.

16. To sum up: the Committee are of opinion that the principal measures to be taken in order to secure a more even apportionment of the burden of taxation are to increase the rates of income-tax and super-tax and to provide for direct taxation by local bodies of the professional and trading classes. They are also of opinion that house sites are very inadequately taxed both by the State and by Local Bodies, and houses also by the latter. They regard the question of the taxation of motor vehicles and the improvement of the roads as a special problem outside the scope of the ordinary measures of taxation, and consider the proposals of the Indian Road Development Committee quite inadequate to meet the expenditure required in Mysore. They consider that octroi should be finally abolished and taxes of a direct nature substituted. In the event of further revenue being required, they consider that death duties and a tax on tobacco should be introduced.

C. G. TODHUNTER,
Chairman.

P. W. O'BRIEN.
B. K. GARUDACHAR.
S. VENKATESIAH.
N. S. SUBBA RAO.
N. S. NANJUNDIAH.
N. RAMA RAO.
M. S. LINGE GOWDA.
S. P. RAJAGOPALACHARI.
B. ABDUR RAHMON.
P. A. BARTON.
K. SUBRAMANI AIYAR.
B. SREENIVASA IYENGAR.

Mr. P. W. O'Brien.—I do not agree with most of the suggestions in para 12. I would not be in favour of any legislation which would interfere with development of Motor Transport in the State.

Mr. B. K. Garudachar.—I endorse the opinion of Mr. O'Brien regarding para 12.

Mr. S. Venkatesiah.—Dissenting, however, from the reasoning and some suggestions in para 12 about Motor Taxation.

APPENDIX A.

Details of the attendance of the members on the several dates of meeting of the Committee.

Date of the Meeting	Particulars of attendance
31st March 1928	All present, except Mr. B. K. Garudachar.
11th April 1928	All present.
12th ,, ...	Do
13th ,, ...	Do
6th February 1929	Do except Messrs. P. W. O'Brien, S. Venkatesiah, N. S. Subba Rao, S. P. Rajagopalachari, and Rao Bahadur N. S. Nanjundiah.
11th February 1929	Do except Messrs. P. W. O'Brien, S. Venkatesiah, S. P. Rajagopalachari, and Rao Bahadur N. S. Nanjundiah.
2nd March 1929	Do except Mr. B. K. Garudachar.

APPENDIX B.

Proceedings of the Meeting of the Sub-Committee appointed by the Mysore Taxation Enquiry Committee to prepare a revised scale of rates of Income-tax, held on the 7th April 1928, in the Public Offices, Bangalore.

Present.

Mr. K. Subramani Aiyar, B.A., F.S.A.A. (Member).

Mr. B. Sreenivasa Iyengar, B.A., B.L. (Secretary and Member).

Mr. P. W. O'Brien was absent from Bangalore on the date of the meeting, but forwarded a statement of his views later in the form of a note.

The subject was discussed.

The sub-committee submit the following report for the consideration of the Committee :—

When the question of levy of income-tax for the first time in Mysore was under consideration a distinct promise appears to have been held out by the Government that, when the income-tax was levied, the rates would be lower than those of British India. The limit of exemption was fixed at Rs. 1,200 in the original Bill as the Government of India minimum was then Rs. 1,000. The latter having been raised to Rs. 2,000, the minimum taxable limit in Mysore was placed at Rs. 2,400 in the Bill placed before the Mysore Legislature.

In introducing the Income-tax Bill (which was enacted as Regulation No. IV of 1920) before the Legislative Council, Mr. Chakravarthi, then Financial Secretary, observed as follows :—

"The minimum taxable limit will be fixed at a fairly high figure so as not to press at all on the poorer classes who are seriously affected by the prevailing high prices. Members of this Council are aware that the Government of India have recently raised the minimum taxable limit to Rs. 2,000, and the minimum in the case of Mysore will probably be placed at Rs. 2,400, which will mean that all persons having an income of less than Rs. 200 per mensem will be altogether exempt from income-tax. I would particularly invite the attention of Members to this fact, for with the minimum taxable limit fixed at this high figure, most of the objections against income-tax ought to cease. As regards rates, they will vary from 3 pies to 1 anna in the rupee according to the total annual income of the assessee. So it will be seen that our rates in the majority of cases will be lower than the rates in British India."

The first regulation was in force for three years. When it was found that an amendment of the Income-Tax Regulation was necessary on the model of Government of India Act of 1922, the Income-Tax Commissioner, Mr. Chandy, recommended that the opportunity of

amending the original regulation may be taken for enhancing the rates so as to b in line with British Indian rates. He observed as follows :—

"The rates of income-tax prevailing in British India may, in my opinion, b in Mysore at least in the case of higher incomes."

Government however decided to retain the old schedule practically unaltered.

The sub-committe believe that it will generally be conceded that the avera income of an assessee in Mysore is comparatively less than that of a person in Bri and on this assumption they are of opinion that the comparatively low economic of the people of the State will have to be taken into consideration in deciding th of rates of income-tax, especially in the case of assessees of moderate means.

There is, however, much to be said in favour of the adoption of the classificatio in British India as suggested in the reference to us.

The Indian Taxation Enquiry Committee have, after an exhaustive enquir subject, suggested the feasibility of enhancement of the intermediate scales in Brit In Mysore the intermediate scales are rather few, and it seems desirable to adop graduated scale than what exists at present with a view to remove inequality an revenue.

In view of these considerations, the sub-committee propose that the Briti classification may be adopted, but with lower rates of tax so adjusted that th resulting from the revision may not be felt by the poorer classes and the enhancem rates may be progressive in the case of higher incomes.

The Committee have resolved to adopt the British Indian minimum for taxat sub-committee venture to suggest that the taxable minimum may continue to be for some time to come.

The following scale is proposed for consideration :—

Grades of Income	Present rates	British Indian rates	Increase of 50 per cent proposed by Mr. N. S. Subba Rao	Rates recomm by the sub-com
Rs.	Pies.	Pies.	Pies.	
2,000— 2,399	...	5	4½	.....
2,400— 4,999	3	5	4½	3 pies (No chang
5,000— 8,999	3	6	4½	4½ ,, (Increase
9,000— 9,999	4½	6	7	4½ ,, (Adjusting
10,000—19,999	4½	9	7	6 ,, (Increase
20,000—24,999	4½	12	7	9 ,, (Increase (Adjust
25,000—29,999	6	12	9	9 ,, (Increase
30,000—39,999	6	15	9	12 ,, (Increase
40,000—49,999	9	18	13½	15 ,, (Increase
50,000 and above	12	18	18	18 ,, (Increase
In the case of every Company, Registered Firm, etc.—				
On all incomes not below Rs. 2,000.	...	18	18	.....
On all incomes not below Rs. 2,400.	12	18	18	18 ,, (Increase

NOTE.—It will be seen from the above that the sub-committee do not recommend an in the case of incomes below Rs. 5,000. As regards higher incomes, they suggest a revision of 1½ pies, 3 pies, 6 pies, making allowances for necessary variation in regard to ome few cases in readjusting the old and new classifications.

In regard to the enhancement of the maximum rate of income-tax from 1 18 pies, it has to be borne in mind that the State will not derive the full benef revision in the case of assessees, who are also taxed in the United Kingdom and ar to relief under section 49 of the Income-Tax Regulation, 1923.

However, the scale above proposed will yield a substantial increase of revenu the event of additional taxation being found necessary, the revision suggested adopted.

(Sd.) K. SUBRAMANI AIYA

,, B. SREENIVASA IYE

Opinion of Mr. P. W. O'Brien.

I would prefer that the taxable minimum be fixed at Rs. 2,000 and suggest the following scale for consideration :—

Grades of Income—New Scale	Proposed Rates	Present Rates
Rs.	Pies.	Pies.
2,000— 3,999	3	0,3
4,000— 5,999	4	3
6,000— 9,999	5	3,4½
10,000—14,999	6	4½
15,000—24,999	9	4½
25,000—39,999	12	6
40,000—50,000 and above	18	9,12

As regards the scale for Companies, Registered Firms, etc., I am in agreement with the scale proposed by Mr. K. S. Aiyar and Mr. B. Sreenivasa Iyengar.

(Sd.) P. W. O'BRIEN.
11-4-28.

APPENDIX C.

Proceedings of the meeting of the Enlarged Income-Tax Sub-Committee held on the 8th December 1928, in the Public Offices, Bangalore.

PRESENT.

Mr. B. Sreenivasa Iyengar.
,, N. S. Subba Rao.
,, K. Subramani Aiyar.
Rao Bahadur N. S. Nanjundiah.
Mr. O'Brien was in England on the date of the meeting.

The accompanying note prepared by Mr. B. Sreenivasa Iyengar was considered. After a full discussion of the points contained in it, the Sub-Committee arrived at the following conclusions :—

(1) Following the recommendation of the Indian Taxation Enquiry Committee, the limit of super-tax in Mysore may be reduced to Rs. 30,000 and a lower rate of six pies in the rupee may be levied on incomes exceeding this amount.

The limit of exemption from the levy of super-tax at one anna may remain at Rs. 75,000 in the case of a Hindu undivided family.

The present and proposed schedule of super-tax will stand as follows in juxta-position :—

PRESENT.		PROPOSED.	
Incomes up to Rs. 50,000 ...	Nil.	Incomes up to Rs. 30,000 ...	Nil.
		Excess over Rs. 30,000 up to Rs. 50,000 in the case of incomes of Companies, individuals and un-registered firms and up to Rs. 75,000 in the case of a Hindu undivided family.	Six pies in the rupee.
Excess over Rs. 50,000 in the case of incomes of Companies, individuals and unregistered firms.	One anna in the rupee.		No change.
Excess over Rs. 75,000 in the case of a Hindu Undivided Family.	One anna in the rupee.		No change.

(2) As regards the question of levying a cess on income-tax in rural areas, the sub-committee is of the opinion that such a levy is both sound and equitable, not only in rural areas but also throughout the State. In view, however, of the resolution of the

Committee to enhance the rates of income-tax, it is a point for consideration whether simultaneously a cess on income-tax should also be levied at this stage. The sub-committee considers that such a levy could be appropriately made, if and when it is decided to abolish the system of interior road toll-gates in the State, as compensation may have to be paid to Local Bodies for the loss of revenue involved thereby. It is hardly likely that the loss would be fully covered by fresh taxation on motor transport.

(3) The sub-committee does not recommend the imposition of a tax modelled on the *Haisyat* tax which obtains in the Punjab, inasmuch as Village Panchayets are already empowered to levy taxes which will fall on the classes of persons whom it is proposed to bring within the range of the suggested tax.

(Sd.) B. SREENIVASA IYENGAR.
„ N. S. SUBBA RAO.
„ K. SUBRAMANI AIYAR.
„ N. S. NANJUNDIAH.

Note by Mr. B. Srinivasa Iyengar.

1. The opinion of the Taxation Enquiry Committee on this subject at the last meeting is contained in the following extract of the *interim* report to Government :—

* * * *

7. *Income-tax.*—The question of income-tax was referred to a sub-committee consisting of Mr. B. Sreenivasa Iyengar, Mr. P. W. O'Brien and Mr. K. Subramani Aiyar, a copy of whose report is attached as Appendix A. For the purposes of certain further enquiries to be made by them, Messrs. Rao Bahadur N. S. Nanjundiah and N. S. Subba Rao were added to their number. The following conclusions were recorded on a consideration of the report of the sub-committee :—

(*a*) The Committee by a majority are in favour of maintaining the minimum of Rs. 2,400 for the time being.

(*b*) The Committee recommend the adoption of the scale below :—

Rs.					Pies.
2,400	to	4,999	...	...	3
5,000	to	9,999	...	..	4½
10,000	to	19,999	...	...	6
20,000	to	24,999	...	...	7½
25,000	to	29,999	...	...	9
30,000	to	39,999	...	..	12
40,000	to	49,999	...	...	15
50,000	and above.		...	...	18

Companies and registered firms to pay at the new maxium rates.

Mr. Garudachar prefers the following scale in the higher grades :—

Rs.					Pies.
20,000	to	24,999	...	...	6
25,000	to	29,999	...	...	7½
30,000	to	39,999	...	...	10½
40,000	to	49,999	...	...	12
50,000	and above		...	...	18

(*c*) The income-tax sub-committee has been asked to examine the question of the increase in the super-tax rates, having in view the increase proposed in the rates of income-tax.

(*d*) The Committee do not propose that any action be taken at present in the direction of inclusion of income from agricultural sources for the purposes of fixing the rates on non-agricultural incomes.

* * * *

12. *Local taxation.*—(i) It was resolved that the income-tax sub-committee be asked to examine the question of the levy of a cess on income-tax in rural areas as well as of a tax on the lines of *Haisyat* tax in the Punjab.

* * * *

2. A rough estimate of additional revenue according to the above proposal of the Committee is about Rs. 2½ lakhs.

3. Two questions are now referred to the income-tax sub-committee :—

Firstly, the desirability of increase in the super-tax rates.

Secondly, levy of a cess on income-tax in rural areas with or without a tax on professions and trades.

4. As regards the first point, the recommendation of the Indian Taxation Enquiry Committee is as follows:—

The limit for super-tax should be reduced from Rs. 50,000 to Rs. 30,000 and a new rate of super-tax of 6 pies on the first Rs. 20,000 or part thereof in excess of that sum introduced. In the case of the Joint Hindu Family the limit of exemption might be reduced to Rs. 60,000. the anna rate being applied to the first Rs. 40,000 of excess.

Mr. N. S. Subba Rao does not specifically refer to this recommendation in his report.

The rates of super-tax in Mysore and in British India are shown in juxta-position in the enclosure to this note.

In Mysore a flat rate of 1 anna in the rupee is levied as super-tax on Companies, individuals and unregistered firms on incomes exceeding Rs. 50,000, and in the case of a Joint Hindu Family the limit is raised to Rs. 75,000.

In British India, while the companies are required to pay super-tax at a flat rate of 1 anna in the rupee on incomes in excess of Rs. 50,000, as in Mysore, there is in respect of other assessees a graduated scale according to which the rates rise from 1 anna to 6 annas in the rupee.

From a reference to the list of persons assessed to super-tax in the year 1927-28, it will be seen that there are only 22 assessees, of whom about half a dozen are individual assessees, the rest being Companies. The total demand for super-tax was about Rs. 4½ lakhs, of which the tax due from individual assessees was less than Rs. 5,000. The enhancement of the rates of super-tax on the income of Companies is not contemplated. And in view of the small number of other assessees subject to super-tax the enhancement of the rates by the adoption of a progressive scale as in British India will not yield any appreciable addition to revenue.

Having regard to the conditions in Mysore, it looks as though the super-tax limit of Rs. 50,000 is unduly high. The suggestions made by the Indian Taxation Enquiry Committee of reducing this limit to Rs. 30,000 and of levying a lower rate of 6 pies in the rupee on incomes between Rs. 30,000 and Rs. 50,000 seem reasonable and may be accepted.

Their recommendation to reduce the limit of exemption in the case of Hindu Undivided Family to Rs. 75,000 to Rs. 60,000 may also be adopted.

According to the above proposals the number of assessees liable to super-tax will be about 30 and an additional revenue of Rs. 25,000 to Rs. 30,000 may be expected.

5. *Regarding the second question: Levy of a cess on income-tax in rural areas, etc.*—

This is a question which requires detailed examination.

The Lawrence Committee in Bombay, which was set up in 1915 to make recommendations for improving the finances of Local Bodies, definitely proposed the levy of a cess on Income-tax. They said "This suggestion meets with a considerable share of support and has our cordial sympathy. The importance of securing a contribution to local revenues from the professional, commercial and trading classes cannot be gainsaid, and their present exemption is felt to be a grievance by the agriculturists. In the allotment of this cess to different local authorities very difficult problems arise."

"The Bill on which the Bombay Local Boards Act of 1923 is based originally included a provision among the taxes imposable by a District Board for a proportionate surcharge on income-tax payable under the Income-tax Act, 1922, but this was dropped as the sanction of the Government of India was necessary, and it was considered unlikely that this would be given"—*vide* page 120 of Cumming's Bombay Local Boards Manual, 1925.

The Indian Taxation Enquiry Committee seem to refer to this in page 335 of their report, where it is said "the introduction of the tax on professions and trades in the Bombay Presidency was suggested by a committee appointed by the Bombay Government to enquire into the question of local taxation in 1925. Proposals have been recently made in the same Presidency for the levy of a tax on all non-agricultural incomes exceeding Rs. 600 per annum for financing a scheme of compulsory education."

The proposal to levy a cess on income-tax would be of doubtful expediency here, especially as it is under contemplation to enhance the rates of tax on income for raising revenue for provincial purposes.

6. As regard the tax on professions and trades, the position in British India is explained in para 445 of the Indian Taxation Enquiry Committee Report.

In Municipal areas taxes on professions and trades may be levied and it is believed that they are actually levied in several Municipalities. Mr. Subba Rao in page 129 of his report says "the figures show that the revenue from this source is very small."

While there may be no objection on principle to the levy of a tax on professions and trades in rural areas on the lines of the *Haisyat* in Punjab administration, difficulties may be encountered in the assessment and the calculation of the taxes for want of adequate staff. The Panchayets are not under the control of the District Boards. It will have to be left to the discretion of each Panchayet to levy a tax of this kind. Whether it would be really productive under present conditions is a matter for consideration.

In respect of the excess over fifty thousand rupees of total income.

Mysore rates of super-tax		British Indian rates of super-tax	
	Rate.		Rate.
(1) Every company, every unregistered firm, every individual and every other association of individuals not being a registered firm or company.	1 anna in the rupee.	(1) In the case of every company ...	1 anna in the rupee.
(2) Undivided Hindu Families—		(2) (a) in the case of every Hindu Undivided Family :—	
(a) in respect of the first twenty-five thousand rupees of the excess.	Nil	(i) in respect of the first twenty-five thousand rupees of the excess.	Nil
(b) in respect of the balance of the excess.	1 anna in the rupee.	(ii) for every rupee of the next twenty-five thousand rupees of the excess.	1 anna in the rupee.
		(b) in the case of every individual unregistered firm and other association of individuals not being a registered firm or a company for every rupee of the first fifty thousand rupees of such excess.	1 anna in the rupee.
		(c) in the case of every individual, Hindu Undivided Family, unregistered firm and other association of individuals not being a registered firm or a company—	
		(i) for every rupee of the second fifty thousand rupees of such excess.	1½ annas in the rupee.
		(ii) for every rupee of the next fifty thousand rupees of such excess.	2 annas in the rupee.
		(iii) for every rupee of the next fifty thousand rupees of the excess.	2½ annas in the rupee.
		(iv) for every rupee of the next fifty thousand rupees of such excess.	3 annas in the rupee.
		(v) for every rupee of the next fifty thousand rupees of such excess.	3½ annas in the rupee.
		(vi) for every rupee of the next fifty thousand rupees of such excess.	4 annas in the rupee.
		(vii) for every rupee of the next fifty thousand rupees of such excess.	4½ annas in the rupee.
		(viii) for every rupee of the next fifty thousand rupees of such excess.	5 annas in the rupee.
		(ix) for every rupee of the next fifty thousand rupees of such excess.	5½ annas in the rupee.
		(x) for every rupee of the remainder of the excess.	6 annas in the rupee.

APPENDIX D.

Report of the Sub Committee in the matter of the levy of Succession Duties.

PRESENT.

Mr. B. K. Garudachar.

Rao Bahadur N. S. Nanjundaiya.

Mr. S. Venkatesaiya.

We have considered the legal aspect of the question in relation to existing conditions in Mysore as compared with the statements contained in Appendix XII to the Report of the Indian Taxation Enquiry Committee. The Indian Succession Act is in force in Mysore

as in British India. The Hindu Wills Act and the Bombay Regulation are not in force in Mysore. The probate and Administration Regulation (VI of 1914) is in force in Mysore. This Regulation provides for Probate and Letters of Administration in cases to which the Indian Succession Act does not apply. But sections 187 and 190 of the Indian Succession Act are not reproduced herein. So that a succession certificate under the Succession Certificate Regulation (VII of 1901) may be taken or Probate or Letters of Administration under Regulation VI of 1914 at the choice of the party. Under para 2 of section 4 of the Probate and Administration Regulation the right of survivorship is distinguished from inheritance and excluded from the operation of the Act.

Further under section 1 of the Administrator-General's Act the properties of British subjects in Mysore are subject to its operation.

The rates of duties are levied under the Court Fees Regulation, which prescribes separate rates for a succession certificate and for Probate or Letters of Administration, with an exemption limit of Rs. 1,000 in the latter case. Further duties in case of Probate or Letters of Administration are levied only on property in Mysore.

In other respects the legal position is the same as in British India.

A Record of Rights Regulation applicable to agricultural holdings has been recently enacted. The operation of this Regulation is being extended to limited areas by notification.

For the rest the lines of least resistance, the arguments *pro* and *con* and the inequalities of the law as existing are the same as set out in the Report of the Indian Taxation Committee and Appendix XII thereto. The industrial and commercial development of Mysore is on a lower level than in British India.

(Sd.) S. VENKATESAIYA.
,, N. S. NANJUNDAIYA.
,, B. K. GARUDACHAR.

APPENDIX E.

Proceedings of the meeting of the Sub-Committee appointed by the Taxation Enquiry Committee to consider the question of the levy of a General Tax on Motor Transport in the shape of a surcharge on petrol, held on the 15th November 1928, at 8 a.m., in the Public Offices, Bangalore.

PRESENT.

Mr. N. Rama Rao, B.A., B.L.,
,, C. Ranganatha Rao Sahib, B.A., B.L.,
Col. P. A. Barton,
Mr. K. Subramani Aiyar, B.A., F.S.A.A.
,, B. Abdur Rahmon, B.A.

The sub-committee resolved as follows :—

1. In fixing the rate the sub-committee are of opinion that regard should be had to two considerations.

The duty should not be so high as to act as a drag on the development of motor traffic, and it should also not raise the price to the consumer in the State to such an extent as to offer a temptation to smuggling from outside. The sub-committee think that the surcharge should in no case exceed the rate of Re. 0-4-0 on the gallon, which is the excise duty in British India. They are of opinion that it is undesirable to levy a surcharge of more than Re. 0-2-0 a gallon on the petrol consumed in the State.

The sub-committee believe that the quantity of petrol consumed in the State may be estimated at 1,100,000* gallons, including the Civil and Military Station, and at the rate suggested by us the return from the tax would be Rs. 1·37 lakhs. This, in the opinion of the sub-committee, is the most that this levy can be expected to yield, and whether it would be worth while having recourse to it depends on the realisations from the existing taxes which it is to displace, and the compensation, if any, which will have to be paid to local bodies which are at present deriving a revenue from them.

The sub-committee have no hesitation in saying that, on its own merits, a surcharge on petrol is the most convenient method of taxing motor vehicles, and that it has the additional merit of reaching vehicles from outside which ply in Mysore for a term; but the pitch has to be fixed with due regard to the considerations set forth above.

* This figure is based on the latest quarterly returns of consumption.

The sub-committee think that the best method of collecting the surcharge would be by an arrangement with the importing agents who could instruct their sub-agents and vendors to add it on as part of the price at which petrol is sold to the consumers.

The surcharge system depends for its success on the co-operation of the Civil and Military Station, and a working arrangement will have to be arrived at with the authorities there.

APPENDIX F.

Letter from MR. B. K. GARUDACHAR agreeing to the REPORT with the following qualifying NOTE.

In acknowledging the receipt of the draft report of Taxation Committee, I affix my signature for the report with the following note :—

(1) Under head "Land Revenue" our observation in para 7 is made about the special classes of lands which are likely to become valuable in course of time are to be leased for a limited number of years. I consider the value of such land is increased by the exertion and investment made by the holder of the land. If the time limit for the ownership for the land is fixed, the interest of the owner in the land in the latter part of his term will be lessened and the land loses its value. Hence I am of opinion the ownership of the land is to be for perpetuity.

(2) Although I agree on the general principle of the Report as to the possible ways and means of Taxation to augment the Revenues of the State, I am strongly of opinion, the country, as it is, cannot bear any increase of taxation. If at all, the suggestion of this Report can be considered after the lapse of five years from this date in the least.

B. K. GARUDACHAR,
27-2-1929.

APPENDIX G.

Extract from the Report of the Indian Taxation Enquiry Committee.

138. The principles of general application for the future which may be deduced from these criticisms of the varying systems in force may perhaps be summed up as follows :—

(1) It seems to be clear, especially in view of recent developments of the land revenue systems, that wherever possible the charge for water should be separated from the charge for the land.

(2) The minimum charge, except in the case of protective works, or where a special concession is given to a particular area or class of cultivators, should be the cost of supplying the water, that is to say, the cost of maintenance of the irrigation work, *plus* interest on capital cost.

(3) The maximum should be a figure so fixed as to take for the Government the whole of the increase in the return from the land except such portion as will be just sufficient to induce the cultivator to take the water.

(4) The normal should be a moderate share of the value of the water to the cultivator.

(5) This value will vary with prices, with the demand for the water, with the reliability of the source of supply and with the quality of water in so far as, for instance, it carries silt, but should not bear any relation to the cost of the supply, once the figure of the cost is covered.

(6) The rate should be fixed per acre or other unit of area and should take account of the value as so determined and of the quantity used as estimated with reference to a schedule of proportional requirements of different crops in the locality.

(7) The rates should be as few as possible and they should be examined with a view to increase or decrease periodically, not less than once in ten years.

(8) Where the demand is not constant, and the raiyats agree to pay for water whether they require it or not, a reduced payment for a term of years may be accepted.

(9) Where a guarantee of supply is newly given, it is legitimate to take a reasonable share of the addition made to the capital or annual value of the land by such guarantee. *This should be a charge on the owner and over and above the charge on the occupier for the* use of the water. In the case of a controlled rent there should be provision for recovery from the tenant as under the Agra Tenancy Act.

(10) The rates under protective works should be examined periodically with the rest, unless there are special reasons for subsidising the cultivators under these works at the expense of the general tax-payer.

APPENDIX H.

Extract from the Report of the Indian Road Development Committee.

69. It has also been objected that a great part of a duty on motor spirit will be paid by motor transport in large towns, and that the receipts will be spent on extra-municipal roads from which the towns derive no direct benefit. Objections of this nature are perhaps an inevitable incident of *ad hoc* taxation, and may be a reason why such taxation should be avoided. But in this case, it is not difficult to show that the complaint is over-stated. It may be assumed that part of the proceeds of the duty will be spent on main roads leading into large towns and on the improvements of their approaches generally. It should be obvious that the improvement of communications between a town and the surrounding country would not only benefit the country, but also bring reciprocal advantages to the town. It would be as easy to maintain that local bodies in the vicinity of a large town are required to incur heavy expenditure on roads for the benefit to motor traffic from the town which they are unable to tax. It has been stated in evidence before us that the advantages resulting from this improvement of communications may not be fully shared by cities like Bombay. We are convinced, however, that such cases are not incapable of being adjusted by some suitable arrangements with the local Governments.

(2) Burden on large towns.

APPENDIX I.

Note written by the President for the Octroi Committee.

I trust that the Members of the Octroi Committee will excuse my troubling them, even at this late stage of their enquiry, with a note on certain aspects of it which is designed to suggest the possibility of the collection of certain statistics other than those already called for with, it is hoped, advantage to the final result.

I should like to begin with some general considerations. Municipal taxation is, more than any other form of taxation, a payment for services rendered. The Municipality provides, or ought to provide, roads, lighting, water, drainage, etc., and levies taxes which at the best are only just sufficient to pay the cost of these services. It follows that the people who pay these taxes should be the people who benefit by the services, and not others, and that the more directly the taxes can be made to approximate to a direct payment for the services the better, subject always to the canon of ability.

Sir Josiah Stamp (than whom there is no higher authority) has stated that octroi has nearly all the vices. Its first cousin, the terminal tax, has theoretically more, but practically less. All the world agrees as to the very objectionable nature of this form of taxation, and Mysore is no exception, if the resolutions in the Legislative Council and at the meeting of the merchants are to be taken as evidence. The question then arises how is it that, in spite of these objections to it, octroi taxation still survives.

The causes may be grouped under three heads :—

(1) Octroi is comparatively little unpopular because the taxation is concealed.

(2) The burden of the tax can be shifted.

(3) Octroi survives, not by merits of its own, but because of the objections taken to every alternative that has been suggested.

The first of these is the only real merit. There is no doubt that it is human nature to pay much more willingly when one does not know what one is paying. For instance, if the raiyat were not instructed in the matter, he would be much less likely to object to two rupees a year taken out of him in the shape of salt tax than to one rupee taken in the shape of a poll tax. In the case of the terminal tax this process goes still further. The tax is collected by the railways, together with the freight, and the odium of it passes away from the people who actually impose it altogether, and lies on the broad shoulders of the railway administration.

It is no merit of the octroi that the burden is often shifted, but if the taxation is left in the hands of a municipal authority, this fact is undoubtedly apt, wittingly or unwittingly, to have much weight. The burden is shifted from the townspeople, who ought to pay for the services, to the raiyats who bring in goods from outside. It is shifted from the richer citizen, who ought to pay more in proportion, to the poorer ones, since the articles taxed are generally the necessaries of life of the poorest classes of the population.

Finally it is to be feared that, in respect of the alternatives, consciously or unconsciously similar considerations come into play. Supposing that direct taxation is imposed upon houses and levied through the land-lord, the land-lord might have difficulty in recovering the whole of it from the tenant. In any case he would have to raise his rent. Now the Indian Taxation Enquiry Committee had evidence before them, from practically every Province, to the

effect that the objection to the imposition of direct taxation arose mainly from land-lords on the municipal bodies. It is observed from the proceedings of the Octroi Committee that the objection to the alternatives, which was apparently held to prevail without any scrutiny of figures, was put forward on behalf of "those representing municipal interests." I venture to think that the Octroi Committee, in the interests of the tax-payers of the whole State, should give the alternative of direct taxation further consideration.

Before dealing with this point, I should like to note some tendencies in regard to octroi taxation in British India. One of these is for octroi to tend to become a tax on sales. This is arrived at in this way. The merchants of a town, tired of the trouble and annoyance of having all their goods overhauled, offer to the municipality at the close of a year in which they have paid octroi to compound with them to pay the same amounts in the ensuing year. At the same time, in the course of that year, they tender all their invoices to the municipality, thus enabling them to make up an account of what the merchants would have paid had the octroi been levied on the actual imports of the year. This enables the municipality to compound with them for the ensuing year on the basis of the invoices, and so on: so that in effect the octroi is converted into an actual tax on sales levied one year in arrears. This tax again has a tendency to be converted into a profession tax. The process of working out actual transactions on invoices is only less cumbrous than that of levy of octroi, and it is only a step from the levy of tax on transactions year by year to the grouping of traders into series of groups, preferably with reference to their income-tax results, and the levy of a round sum fixed on past experience from each of the members of each group.

These tendencies are evidently at work in Mysore also. Thus, for instance, in the proceedings of the Octroi Committee of the 17th December 1927, it is proposed to make a list of articles such as tobacco and petrol in the case of which it is more convenient to tax the shops than to tax the imports, and it is also found that in municipalities generally a shop tax is preferred to the profession tax.

It seems desirable to make some further remarks on the proceedings above referred to. While it is recommended that the octroi should be abolished in the case of these larger luxuries, it is also proposed that it should be abolished in the case of necessaries of life and of small luxuries of the poor. From the statement put up showing the estimates of the terminal tax to be collected at different places, it would appear that the articles that would remain are the raw materials of industry such as raw cotton, hides and skins, oil-seeds and spices, and a few articles of trade such as piece-goods, bamboos, glassware and paper and stationery. The question then arises whether the end to be attained cannot be secured in some much simpler way. A reference to the evidence before the Indian Taxation Enquiry Committee of Mr. Sim, who had an intimate knowledge of the terminal tax in Cawnpore, and was one of the ablest exponents of Railway Policy India has ever seen, will show how very delicate a matter is the adjustment of a goods schedule, and how very easily a small increase may divert trade. The effect of the proposals in respect of terminal tax of the 17th December would apparently be to impose a differential goods tariff on the raw materials despatched to the growing manufacturing centres in the Mysore State. Is it not possible that this might have the effect of checking these developments? Take, for instance, the case of Davangere, which imports and deals with a large quantity of raw cotton. Supposing the addition of the terminal tax raised the railway freight to Davangere in such a way as to make it cheaper to send the cotton to some competing centre in the Bombay Presidency, is it not possible that the effect of imposition of the tax would be the ruin of a very promising trade centre?

Considerations like these have led the municipalities in Bombay which also deal in cotton to convert their octroi or terminal tax into a direct tax on the number of bales of cotton turned out from the ginning mills. This seems to be a perfectly proper system of taxation. The establishment of the mills in the town causes the influx of a large floating population and much damage to the roads, in other words, more expenditure on the services afforded by the town, and this is appropriately recouped by a direct tax on the trade which makes the provision of these additional services necessary. A direct tax is much more willingly paid than would be a terminal tax, which might divert the whole of the traffic somewhere else. Similar considerations apply to the case of tanneries, and somewhat similar ones to the case of the big piece-goods and other bazaars.

It has been seen then that the octroi tends to be converted into a tax on sales and the tax on sales into a profession tax, and that the exemption of necessaries and small luxuries for the poor from the tax altogether and the substitution of a shop tax in the case of tobacco, petrol and other important articles of trade will leave very little of revenue yielding capacity to be taxed by the octroi staff, while, in the case of a terminal tax on the raw materials of industry, it is evident that a direct tax on the industry itself is preferable. If these conclusions are accepted, it appears to be inevitable that, if the municipalities are to carry on at all, there must be some further examination of the possibilities of their doing so with the aid of direct taxation. In regard to this, the proceedings of the Committee so far recorded

show nothing further than an assumption that the effect of abolishing the octroi tax would be to double or treble the house tax. What I venture to suggest is that an expert enquiry be made in two or three typical municipalities for the purpose of determining exactly what rates of direct taxation would be necessary if the octroi were to be abolished.

I should like to make one or two brief remarks on the subject of this enquiry. In the first place, I would invite attention to the fact, that, while agricultural land bears the chief burden of taxation in the State, land cropped with houses bears less burden than any other form of property, and therefore is a very suitable subject for taxation. In the second place, a house tax, except in the case of the very poor, who can be exempted, is the most appropriate way of adjusting taxation to the circumstances of the individual. In the third place, an increase, even if it were of a hundred per cent, would still leave the house-tax very low in comparison with most other countries, and in the fourth place, there are many towns in which a large increase could be made in the yield by means of a proper valuation without any increase in the rate at all. What I should like therefore to see is a careful valuation, by independent Revenue Officers delegated for the purpose, of two or three of the towns in which there has been the longest interval since the last revision. The expense involved in such a valuation would not be thrown away, since no doubt the municipal authorities concerned would be ready subsequently to revise their valuations in the light of it.

In the next place, I should like to see the question of the tax on professions or circumstances or shops or factories examined on a comprehensive basis. Whatever the name given, I would bring all these under a single tax. As has already been suggested under the head of a terminal tax, a large manufacturing concern might perhaps pay with reference to output. The members of the professions and the larger shop-keepers could best pay on the basis of the income-tax returns. For the small shop-keepers there would be a shop-tax, which would be an extension of the profession tax to the smaller classes of traders. If it is suggested that this would be difficult to assess and collect, I would point out that a tax of the kind is already being assessed and collected throughout Eastern India and that for many years the income-tax was levied over the whole of British India on incomes down to Rs. 500 per annum.

If an estimate of this nature could be made for two or three typical municipalities, I believe it would be found that at least the amount of money now realised could be realised without any such alarming increase in the rates as has been anticipated, with a considerable decrease in the cost of collection and a more considerable decrease in the indirect cost to the people, who now pay with their taxes the recognised mamuls to the octroi staff.

No. D. 9717—*Uni.* 335-28-2, *dated* 22*nd March* 1929.

Under section 9 Clause (4) (d) of the Mysore University Regulation No. V of 1916 as amended from time to time, His Highness the Chancellor is pleased to nominate Mr. P. Mahadevayya, B.A., B.L., Legal Remembrancer and Secretary to Government, Law Department, as a Fellow of the Mysore University *vice* Dr. B. Mahomed Usmon, resigned.

No. D. 9856—*J. S.* 15-28-4, *dated* 27*th March* 1929.

It is notified for general information that in accordance with the rules under section 144 of the Mysore Companies Regulation VIII of 1917, the Government of His Highness the Maharaja are pleased to sanction the grant of a temporary auditor's certificate to

1. Name : Mr. P. Narasimhachar, B.A.
2. Address : Accountant, Comptroller's Office, now working in the Executive Engineer's Office, Hassan Division.
3. Languages accounts in which the holder is entitled to audit. — English and Kannada